USAID AND POVERTY

by

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Poverty and USAID -- Contents[1]

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A. Introduction and Summary

USAID's strategic framework of Agency goals and objectives contains no reference to poverty, and only one reference to "the poor".[2] Further, USAID does not have a policy paper or policy statement that explains the place of poverty among our goals and concerns, describes our view of the problem and solutions, and outlines the role we see for ourselves in addressing global poverty.

This has led many in the development community to question USAID's concern with poverty, and whether and how USAID contributes to reducing global poverty. For instance, a Development Assistance Committee study of donor approaches to poverty highlighted the fact the United States was one of only a few donors that did NOT have poverty reduction as an overarching goal. Later, the same report claims that "poverty reduction goals and strategies must be mainstreamed throughout the [donor] agency if they are to translate into concrete benefits for the poor." [3] This obviously raises substantial doubts about USAID's contribution to poverty reduction. More generally, it suggests that a strategy like USAID's aimed at broad-based, sustainable development will not accomplish much in terms of poverty reduction. The paper addresses this issue first.

Further, poverty reduction is now prominent on the development agenda in other contexts, including the World Development Report 2000, and the activity surrounding the Heavily Indebted Poor Country (HIPC) Initiative and "Poverty Reduction Strategy Papers" (PRSPs). It is also part of the broader foreign policy agenda (e.g. the July 2000 Okinawa Summit). In each of these exercises an explicit issue has been what constitutes a good poverty reduction strategy. A less explicit but important issue is the relationship -- or the distinction -- between a poverty reduction strategy and a development strategy. What is to be gained or lost in moving from a development strategy to a poverty reduction strategy? This set of issues is the second concern of the paper.

A policy background paper examines policy issues, bringing data and analysis to bear. This particular paper tackles the specific issues identified above: whether a good development strategy is a good poverty reduction strategy, and how a poverty reduction strategy might differ from a development strategy. In so doing, it aims to explain -- particularly to external audiences -- how USAID sees itself contributing to poverty reduction. The intent is to analyze and interpret current policy rather than introduce new policy. The discussion is mainly at the level of broad strategies, goals, and objectives. The paper only briefly touches on questions of priorities and resource allocation among assistance activities.

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[2] One of the agency objectives under Economic Growth refers to expanded access to economic opportunity for the rural and urban poor. See the 1997 USAID Strategic Plan.

[3] "DAC Scoping Study of Donor Poverty Reduction Policies and Practices", OECD, November 1999. The quotation is from page 16 of the executive summary.

The approach is to first consider the goals, objectives, and approaches contained in USAID's Strategies for Sustainable Development and Agency Strategic Plan with particular attention to how poverty is discussed. The next section of the paper looks at the scope of the global poverty problem. It first provides a general framework for looking at poverty, arguing that poverty must be viewed from a country perspective and that the most effective strategy for reducing poverty depends on several critical country characteristics. It then examines the data on the distribution of poverty across regions and countries. The key finding here is that around 90% of global poverty is concentrated in *low-income* developing countries, countries where resources are relatively scarce, institutions tend to be weak, and poverty tends to be widespread. The next section presents evidence that in such countries, development progress – including but not limited to economic growth -- is the key to poverty reduction.[4] The following section of the paper confronts and refutes the proposition that development progress, particularly economic growth, has tended to leave the poor behind, tracing the evolution of thinking and evidence on this issue since the 1970s. The next section looks to the future, discussing prospects for further development progress and poverty reduction. The discussion is based on empirical estimates of the links between economic growth and reduction of poverty, defined in terms of income and consumption. These suggest that even modest rates of growth are sufficient to achieve the international target of a 50% reduction in the share of the population in poverty over the course of 20 to 25 years. The conclusion is that broad-based development progress is both necessary and sufficient for achieving international poverty reduction targets.[5]

On this basis, the paper argues that to the extent USAID's strategies and strategic plan constitute a good development strategy, they represent a good poverty reduction strategy provided that USAID assistance is concentrated on countries that are both needy and making reasonable self-help efforts. Empirical analysis suggests that bilateral Development Assistance meets this latter condition. Economic Support Funds (mainly, Egypt, Israel, and Jordan) and funds supporting transition in Europe and Eurasia do not.

The paper then explores issues surrounding poverty reduction strategies – how does such a strategy differ from a development strategy, and what are the implications for development cooperation and poverty reduction? Here the evidence is less clear and the analysis is more tentative, with ample room for further work. The paper suggests that a poverty reduction strategy focuses relatively more attention on directly improving income distribution, and relatively less attention on economic growth. It then raises a number of issues concerning feasibility and effectiveness. Finally, the paper briefly considers whether and how a concern with reducing global poverty fits with U.S. national interests.

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[4] The proposition that development progress reduces poverty applies (with force) to poor countries, but not necessarily so strongly to middle-income developing countries. The applicability to countries making the transition from Communism is also unclear. Neither group accounts for much of global poverty. Whether global poverty reduction targets are achieved essentially depends on trends in poverty in low-income countries.

[5] Where growth in incomes is concerned, "broad-based" growth is growth with little or no change in income distribution, so that all major income groups benefit, including the poor. See the discussion later in the paper.

B. The Development Assistance Committee (DAC) Targets, USAID Performance Goals, and USAID's Strategies for Sustainable Development

In its 1996 vision statement, "Shaping the 21st Century" the DAC (including the US) proposed a global development partnership to achieve a number of ambitious but realizable development goals. The first of these is "a reduction by one-half in the proportion of people living in extreme poverty by 2015".[6]

USAID endorsed these goals and incorporated them in its first strategic plan. More specifically, USAID's 1997 Strategic Plan identified a number of *performance goals*, including where possible goals that "replicate those endorsed by the United States as a member of the OECD", i.e. the DAC targets. In particular, the Plan incorporated an adjusted version of the DAC poverty target, reflecting the shorter horizon for the Agency Strategic Plan. In discussing these and other performance goals, the Plan made clear that these are goals for development cooperation writ large, and not simply for USAID programs. They are goals to which we aim to contribute, but which are well beyond our manageable interests.[7]

USAID's strategic plan is based on the "Strategies for Sustainable Development" issued in March 1994, and the associated strategic framework.[8] The strategies and *strategic goals* included: encouraging broad-based economic growth; building democracy; protecting the environment; stabilizing world population growth and protecting human health; and providing humanitarian assistance and aiding post-crisis transitions. In 1997 an additional goal of building human capacity was adopted. (Previously basic education had been one of the objectives within the goal of economic growth.)

While there is no explicit strategic goal of poverty reduction, the presentation of USAID's strategies contains numerous references to poverty, and to the importance of reducing poverty. Poverty reduction appears as an overarching challenge in the introduction to the strategies, to which progress in each of USAID's goal areas contributes. The discussion emphasizes that USAID's collective strategies for sustainable development are fully intended and expected to help achieve lasting reductions in global poverty.

Can USAID reasonably claim that its collective development efforts are aimed at reducing poverty? Should USAID make poverty reduction an explicit Agency goal as recommended by the DAC? What differences might this imply for how USAID approaches poverty and development? The remainder of the paper addresses these questions by looking more closely at the problem of global poverty, the challenge of achieving the DAC poverty target, and specific accomplishments and lessons learned over the past several decades.

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[6] "Shaping the 21st Century: The Contribution of Development Cooperation", Development Assistance Committee/OECD, May 1996.
[7] See U.S. Agency for International Development: Strategic Plan, September 1997.
[8] See Strategies for Sustainable Development, USAID, 1994

C. Global Poverty – The Scope of the Problem

1. *A General Framework*

Most discussions of global poverty start with estimates of the total number of people who are poor. In this sense, global poverty is the sum of poverty in individual countries, and changes in global poverty depend on changes in poverty in individual countries. Some important "global public goods" influence poverty (e.g. research and technology pertaining to health and agriculture; and openness and growth in the international economy). Still, trends in global poverty basically reflect what happens to poverty in individual countries. A poverty reduction strategy is largely a strategy to be carried out at the country level.

How poverty reduction can best be accomplished at the country level, and what constitutes a good poverty reduction strategy, depend critically on country circumstances. In particular, the best approach to poverty reduction for a given country depends (among other things) on:

- the prevalence and depth of poverty;
- average income levels and resource availability; and
- institutional capabilities.

For instance, reducing poverty in a high-income country with capable institutions and limited, narrowly concentrated poverty (e.g. 10% of the population) calls for one set of approaches. With concentrated "pockets" of poverty, promoting overall development progress may well have relatively little direct impact on the poor. Instead, carefully targeted direct-impact programs will likely play a prominent role. With high incomes and capable institutions, such programs are more likely to be feasible and effective.

In contrast, poverty reduction in a very poor country with weak institutions and widespread poverty (e.g. 40 to 60% of the population) almost certainly calls for a very different blend of approaches. In such countries it is much more likely that broad general development progress will include and significantly benefit the poor. At the same time, low incomes, weak institutions, and widespread poverty pose severe challenges to the feasibility and effectiveness of targeted, direct-impact poverty programs.[9]

With these distinctions between countries in mind, what can we say about the distribution of global poverty across countries and regions?

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[9] This point is well illustrated by the reactions of a Mexican poverty expert to the government's ambitious "Progresa" program. She liked the concept – a small stipend paid directly to poor mothers in rural areas provided they take their children to health clinics and keep their children in school. But she concluded, "Progresa is designed for another country, a country where perhaps 10% -- not half – of the population has trouble putting food on the table every day". See "Mexico Tries to Take Politics Out of Welfare and Focus on the Neediest", by Jonathan Friedland, Wall Street Journal, October 15, 1999, p. 1. The article also emphasizes the political and institutional challenges in seeing that targeted programs actually reach those in need.

2. *The Locus of Global Poverty*

A look at the data confirms that the vast majority of the world's poor people subsist in poor countries, those with low per capita incomes (below $760 in 1998). Most of these countries have relatively weak institutions, widespread poverty, and average incomes *well below* the $760 threshold.

More specifically, most discussions of global poverty -- including the DAC targets – have cited World Bank estimates of 1.3 billion people in **1993** living on less than $1 a day (1985 dollars, using purchasing power parity prices).[10] Examining this data set, China alone accounts for over 350 million of the world's poor, leaving nearly 950 million poor people in the remainder of the developing world.[11] Of this latter figure, 515 million (nearly 55% of 950 million) are in South Asia, and 220 million (nearly 25% of 950 million) are in sub-Saharan Africa. In both regions, about 40% of the overall population fall below the $1 per day poverty line. Taking into account low-income countries in East Asia (e.g. Indonesia, Vietnam, Myanmar, Cambodia) and elsewhere it is safe to say that well over 85% of global poverty outside China is concentrated in low-income developing countries. (Including China and counting it as a low-income country, poor countries account for well over 90% of global poverty.)

The latest update (to 1998) by the World Bank confirms this general picture (Table 1, next page). The new data show a small increase in the number of poor outside China; a relatively constant share for South Asia; and an even higher share (29%) for sub-Saharan Africa. The incidence of poverty – the share of the total population that is poor -- is estimated at 40% for South Asia, and over 45% for sub-Saharan Africa. In other regions the incidence of poverty is well below 20%.

There are clearly more generous poverty lines (e.g. $2 a day). And, there are clearly other dimensions to poverty besides income (e.g. health, education, status of women, vulnerability and risk, powerlessness). Even allowing for this, it is hard to escape the conclusion that global poverty is overwhelmingly concentrated in the low-income developing countries of the world -- countries where average incomes are low, poverty tends to be widespread, public budgets are severely constrained, and public institutions tend to be weak.[12]

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[10] See for instance World Development Indicators 1998, p. 4, or "Poverty Reduction and the World Bank: Progress in Fiscal 1998", March 1999.

[11] With 1998 per capita income estimated at $750, China was just at the World Bank threshold for low-income countries. China's per capita income in 1999 was estimated at $780, slightly above the low-income threshold. See "Per Capita Income Guidelines for Operational Purposes", World Bank, June 1999 and June 2000.

[12] For instance, with a $2 per day poverty line it is still true that 80% of global poverty is concentrated in low-income countries, even without China. With that higher poverty line, the incidence of poverty in South Asia and Africa rises to 75-85%, still over twice as high as for Latin America, the Middle East and North Africa, or Eastern Europe and Central Asia. See data source for Table 1.

These characteristics have an important bearing on what might be considered an appropriate poverty reduction strategy.

Table 1: The Geographic Distribution of Global Poverty
(Based on a poverty line of $1 per day per person)

Region	Number of Poor (millions)			Share of Regional Population (%)			Share of Global Poverty (w/o China)		
	1987	1993	1998	1987	1993	1998	1987	1993	1998
East Asia/Pacific	418	432	278	27	25	15			
(w/o China)	114	84	65	24	16	11	13	9	7
South Asia	475	505	522	45	42	40	54	53	53
Sub-Saharan Africa	217	273	290	47	50	46	25	29	29
Latin America/ Caribbean	64	71	78	15	16	11	7	7	8
Middle East/ North Africa	9	5	6	4	2	2	0	1	1
Eastern Europe/ Central Asia	1	18	24	0	4	5	0	2	2
Total	1,173	1,304	1,200	28	24	24			
(w/o China)	880	956	986	29	28	26	100	100	100

Source: Global Economic Prospects and the Developing Countries – 2000, World Bank, December 1999. Note that this table contains some revisions in the data that are discussed for 1993.

D. Global Poverty Reduction and Development

The profile of global poverty that is depicted in Table 1 says much about the causes of poverty and the solutions to poverty. It indicates that most of the world's poor are poor because they live in the poorest regions and countries. This suggests that poverty reduction is essentially a matter of development progress in poor countries.

First, there is a *close correspondence between the dimensions of underdevelopment and the dimensions of poverty***.** The least developed countries are characterized by low average incomes and low productivity, weak and unresponsive institutions, widespread food insecurity, low levels of health and education, vulnerability to crisis and conflict, inferior status of women, and other facets of underdevelopment. These all have their counterparts in various dimensions of poverty at the individual level. This suggests that for the countries that account for the bulk of global poverty, the basic solution to poverty reduction is broad-based development progress.[13]

Second, it is evident from *regional comparisons* that poverty reduction for poor countries is essentially a matter of development progress. Consider three developing regions of roughly similar population size -- East Asia (without China) at 575 million; sub-Saharan Africa at 628 million; and Latin America/Caribbean at 500 million.[14] Table 1 indicates that poverty is clearly a much greater problem in sub-Saharan Africa, by far the poorest and least developed of these three regions. The incidence of poverty -- the share of the population that is poor -- is far higher in sub-Saharan Africa. Indeed, Africa has more than twice as many *poor people* as the other two regions *combined*. Further, by virtue of low per capita incomes, weak institutions, and other facets of underdevelopment Africa is much less capable of reducing poverty on its own, without outside assistance. A comparison of these three regions in terms of food insecurity, health, education, status of women, or other dimensions of poverty (and development) would tell the same story. The basic explanation for most of global poverty is underdevelopment.

Third, an examination of *regional trends* over time confirms the role of broad-based development progress in reducing poverty. Leaving China aside, the largest declines in global poverty between 1987 and 1998 (not to mention earlier) occurred in East Asia, a group dominated by Indonesia, Thailand, Malaysia, and Korea (East Asian "Miracles") as well as other countries (Philippines, Vietnam) that made significant development progress over that period. The incidence of poverty for East Asia fell from 24% in 1987 to 11% in 1998, thus exceeding the DAC target -- a reduction by half in the share of the population in poverty -- in only eleven years. (Note that the 1998 figure reflects at least some of the impacts of the East Asian Financial Crisis. The incidence of poverty in 1996 was 10%).

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[13] It bears reemphasizing that the same statement does not necessarily hold for middle-income countries, including many countries making the transition from Communism.

[14] Since the point of this paragraph is to compare regions of roughly comparable population size, we ignore South Asia for the moment.

More generally, *the longer-term development record* confirms that broad-based development progress is the key to poverty reduction. The World Development Report 1990 examined the experience of eleven developing countries for which adequate poverty data were available. Seven of these countries reduced poverty at a pace consistent with meeting the DAC target over a span of two decades – Indonesia, Thailand, Malaysia, Singapore, Pakistan, Brazil, and Costa Rica. (Taiwan and Korea, not included in the sample, surely achieved rates of poverty reduction consistent with the DAC targets as well). These countries achieved annual growth rates in per capita income or consumption of 2% or better, and reduced under-5 mortality at annual rates of 1.8% or better.

Looking at specific country examples, Indonesia reduced the proportion of its population in poverty from 58% to 17% during 1970 to 1987. Thailand reduced the incidence of poverty from 59% to 26% during 1962-82. In Malaysia poverty fell from 37% in 1973 to 15% in 1987. In Costa Rica poverty fell from 45% to 24% during 1971-86. Several other countries (Colombia, India) reduced poverty at rates that would have come fairly close to meeting the DAC poverty targets, with annual per capita growth rates around 1%.

In *Brazil* development has not been as broad-based as in Asian countries, so that it is often cited as a case of development without poverty reduction. Still, Brazil reduced the incidence of poverty from 50% in 1960 to 21% in 1980. Today only about 5% of Brazil's population fall below the $1 per day poverty line that is the basis for the DAC targets. [15]

At the same time, there is no indication anywhere in the development record that poor countries can significantly reduce poverty over time *without* broad-based development.

Based on analysis of country experience, a consensus emerged in the 1990s about the essential elements of a strategy for reducing poverty in poor countries. These include achieving rapid, broadly-based economic growth that creates rapidly expanding economic opportunities for the poor; investing in the poor through basic education, health, and other services so that they can take advantage of expanding economic opportunity; and safety nets for those who have no other source of income.[16] Considering the importance of democracy and governance in formulating and implementing the requisite policies and programs; and the importance of environmental activities that make development progress sustainable; there is arguably little if any difference between a strategy for reducing poverty in poor countries and a strategy for promoting development in such countries. USAID's Strategies for Sustainable Development, formulated as this consensus was emerging, for the most part recognized this.

Broad-based development progress not only significantly reduces poverty, but also substantially strengthens the capacity of countries to make further progress against poverty on their own. Development progress strengthens institutions, augments human resources, and raises overall incomes and public revenues, so that countries can progressively reduce reliance on foreign aid to address poverty and other concerns.

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[15] These data are from World Development Report 1990, Tables 3.2 and 3.7, except for the last figure, which is from World Development Indicators 2000, Table 2.7.

[16] See World Development Report 1990 and subsequent IBRD reports on poverty reduction.

E. Does General Development Progress Leave the Poor Behind?

Many have argued (and still argue) that development progress by itself is not sufficient to reduce poverty. During the 1970s it became an article of faith that development progress -- especially in the form of economic growth -- had left the poor behind. For instance, one prominent book, Redistribution with Growth, alleged that "It is now clear that more than a decade of rapid growth in underdeveloped countries has been of little or no benefit to perhaps a third of their population." The International Labour Office's Employment, Growth, and Basic Needs, observed that "…policy has led to rapid and sustained growth in national output and investment in both developed and developing countries. However, it has become increasingly evident, particularly from the experience of the developing countries, that rapid growth at the national level does not automatically reduce poverty…" The authors of Economic Growth and Social Equity in Developing Countries argued that "Development is accompanied by an absolute as well as a relative decline in the average income of the very poor…The frightening implication of the present work is that hundreds of millions of desperately poor people throughout the world have been hurt rather than helped by economic development."[17]

In part this view stemmed from the *aggregate* data on developing country performance, which demonstrated rapid economic growth in developing countries as a group, but at best only slow progress in reducing total poverty. For instance, between 1960 and 1976 per capita income in developing countries grew at an average annual rate of 3.7 per cent. However the ILO estimated that during roughly the same time period (1963 to 1972) the number of seriously poor in developing countries increased from 1.1 to 1.2 billion, and the incidence of poverty fell only slightly, from 73 per cent to 67 per cent.

Most analysts attributed these results to inequitable patterns of growth *within* countries. In particular, they cited the "Kuznets Curve", the hypothesis that income distribution initially tends to worsen with growth in poor countries, followed by subsequent improvements as countries eventually gained middle-income status.[18]

As the 1970s ended, emerging data and more careful analysis revealed that fears about the *systematic* tendency for growth and development in poor countries to proceed along inequitable patterns were not justified by the empirical record. As data on trends in income distribution over time gradually became available for specific countries, it became evident that these did not fit the pattern hypothesized by the Kuznets Curve. More generally, there was no clear tendency for income distribution to change in any particular direction with growth – examples of improvement were about as prevalent as examples of worsening, and in many cases there was little or no change.[19]

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[17] See Hollis Chenery and Associates, Redistribution with Growth, Oxford University Press, 1974, p. iii; International Labour Office, Employment, Growth, and Basic Needs: A One-World Problem, Geneva, 1976, p. 15; and Irma Adelman and Cynthia Taft Morris, Economic Growth and Social Equity in Developing Countries; Stanford University Press, pp. 189-193, 1973

[18] Simon Kuznets, "Economic Growth and Income Inequality", American Economic Review, March 1955

[19] See Montek Ahluwalia, Nicholas Carter, and Hollis Chenery, "Growth and Poverty in Developing Countries", Journal of Development Economics, September 1979; and Gary Fields, "Poverty, Income

Indeed, a much more important distributional issue had to do with the pattern of growth *among* countries. Analysis indicated that most of the growth in the developing world had occurred in middle-income countries, whereas most poverty was in low-income countries, which by and large had stagnated. As one USAID paper pointed out, “rapid growth appears to have failed [to reduce poverty] mainly in the sense that rapid growth in Korea and Taiwan has not had much effect on poverty in Bangladesh or Ethiopia”.[20]

This is not to imply that the development focus on poverty during the 1970s was completely mistaken. The emphases in the 1970s on agricultural development (and not just industry); on exports (and not just import substitution); on basic investments in health, education, and population (and not just on physical capital); and on the role of women in development have stood the tests of time and analysis. But the story we tell about why these are important and how they relate to growth and development has changed substantially.

During the 1980s attention focused much more on growth, debt, and structural adjustment – particularly in middle income countries -- than on poverty reduction. Development policy placed considerable emphasis on the role of private markets, and on the role of government in supporting rather than undermining private markets. As in the 1970s, some of this thinking proved to be naïve or misinformed. But a substantial portion remains valid. Towards the end of the decade development concerns expanded to include a focus on democracy and governance, and on the environment.

Analysis and experience since the early 1990s have confirmed and expanded our understanding of the close links between development progress and global poverty reduction, particularly insofar as the problem of global poverty is heavily concentrated in poor developing countries. A number of analyses of a new, large, expanding data base for poverty and income inequality confirm that there is no *systematic* tendency for income distribution to worsen with growth. By and large, income distribution tends to remain fairly stable within countries over time as growth proceeds, so that the poor tend to benefit from general development progress.[21] According to the empirical record, economic growth in poor countries has reduced the prevalence and depth of poverty most (i.e. 80-90%) of the time. On average the incomes of the poor rise at about the same rate as average incomes of the non-poor.[22]

Distribution, and Development”, paper delivered at the American Economics Association Meetings, Atlanta, December 1979.

[20] This quote, and a more general critical review of the evidence surrounding the alleged failure of growth to reduce poverty, is contained in “Growth, Poverty Alleviation, and Foreign Assistance”, by Michael Crosswell, A.I.D. Discussion Paper #39, August 1981.

[21] See U.N. Development Program (UNDP), Human Development Report 1997; Overseas Development Council Policy Essay #22, Perspectives on Aid and Development, 1997; and references cited therein. A very World Bank study finds a **positive** and significant correlation between growth of GDP and improvements in income inequality. The implications of this finding for the links between growth and poverty reduction are not discussed. See The Quality of Growth, World Bank, 2000, page 3.

[22] See “Growth *Is* Good for the Poor”, by David Dollar and Aart Kraay, World Bank, March 2000; “A New Data Set Measuring Income Inequality” by Klaus Deininger and Lyn Squire, World Bank Economic Review, September 1996; Poverty and Inequality in Latin America; by Samuel Morley, Overseas

Further, the rates of economic growth required to achieve substantial reductions in poverty are not all that high, provided that income distribution remains stable so that growth is broadly based. In 1998 the World Bank estimated that annual growth rates in per capita consumption of 1 to 2% (depending on the region) are sufficient (with stable income distribution) to achieve the DAC target of reducing the proportion of people in poverty by half over the course of 25 years.[23]

These estimates reflect empirical evidence on the observed relationship between growth, income distribution, and poverty reduction in a large number of country settings. Much of the evidence stems from a 1997 study based on household surveys in 67 countries that estimated an *average* elasticity of poverty with respect to growth of 2.6. This means that a 10 per cent increase in income is *on average* associated with a 26 per cent (not percentage point) reduction in the *proportion of the population in poverty*. The implication is that very modest growth in per capita income – on the order of 1 per cent per year – would over the course of 20 years achieve the DAC poverty target of a 50 per cent decline in the proportion of the population in poverty. As the World Development Report 2000 and other studies point out, there has been considerable variation around the average relationship, with some countries enjoying stronger links between growth and poverty reduction than other countries. The Report notes that the growth elasticity of poverty depends in part on income distribution, and is significantly lower in countries with worse income distribution. More specifically, it estimates that the elasticity would be about 3.0. for a country with relatively good income distribution (a Gini coefficient of .2), and 1.5 in a country with relatively bad income distribution (Gini coefficient of .60). Even at the latter figure the DAC target is readily achievable with modest growth over less than twenty years, assuming income distribution remains stable.[24]

F. Prospects

The DAC poverty target calls for a 50% decline in the proportion of populations in extreme poverty by 2015, compared with 1990. What are the prospects for achieving the kind of development progress that will meet the DAC poverty target and other DAC goals? The World Bank's Global Economic Prospects -- 2000 analyzes recent and prospective performance.

Development Council Policy Essay #13, 1994; "Does Economic Growth Reduce Poverty" by Michael Roemer and Mary Kay Gugerty, CAER II Discussion Paper #5, April 1997; "Economic Growth and Income of the Poor", by John Gallup, Steven Radelet, and Andrew Warner, CAER II Discussion Paper #36, January 1999; and "Growth, Inequality, and Poverty Alleviation: Implications for Development Assistance", Mary Kay Gugerty and Peter Timmer, CAER II Discussion Paper # 50, December 1999. The latter three papers are from Harvard Institute for International Development.

[23] See World Development Indicators 1998, p. 4; and "Equity and Growth in Developing Countries: Old and New Perspectives on the Policy Issues", by Michael Bruno, Martin Ravallion, and Lyn Squire, in Income Distribution and High-Quality Growth, edited by Vito Tanzi and Ke-young Chu, MIT Press, 1998

[24] See the World Development Report 2000/2001 – Attacking Poverty, figure 3.6; and "What Can New Survey Data Tell Us About Recent Changes in Distribution and Poverty?" by Martin Ravallion and Shaohua Chen, World Bank Economic Review, 1997. In the latter article Ravallion and Chen report that their results are robust across regions except for Eastern Europe and Central Asia, which are distinguished by the challenge of transition from Communism.

For *East Asia* (either with or without China) the proportion of the population in poverty fell by about 40% between 1990 and 1998. Even under pessimistic scenarios (slower growth, worsening income distribution) the DAC target is readily achieved by 2008.

For *South Asia*, which accounts for over half of global poverty outside China, the incidence of poverty fell by about 9 per cent between 1990 and 1998. Under the pessimistic scenario (slower growth, worsening income distribution) the incidence of poverty would decline by a further 20 per cent by 2008. On the other hand, with growth rates that are readily achievable based on past experience, and with *stable* (not improving) income distribution, the cumulative decline in poverty in South Asia (since 1990) would reach 70 per cent by 2008. If the DAC poverty target is achieved by a wide enough margin in Asia, it will likely be achieved for the developing world as a whole.

The current outlook for *Africa* as a whole is considerably more somber. The incidence of poverty declined only slightly (3 per cent) between 1990 and 1998, as overall per capita income essentially stagnated. With modest (1%) growth and stable income distribution, the incidence of poverty in Africa would fall by a further 10 per cent by 2008.[25]

However, aggregate trends for Africa mask wide variation among countries, particularly where policy and institutional self-help efforts are concerned. In African countries that can pull themselves together and make the necessary reforms, significant progress is demonstrably feasible. A recent analysis of poverty reduction in Uganda – which is not only extremely poor, but is also relatively small, land-locked, and formerly in as complete a shambles as any country in Africa – offers considerable encouragement. The analysis indicates that the incidence of poverty in Uganda fell from 56% in 1992 to 44% in 1997. This constitutes a 20 per cent reduction in the proportion of the population in poverty in only five years, a rate of progress much faster than the DAC target of a 50 per cent reduction over twenty-five years. During this period, Uganda followed a "mainstream" broad-based development strategy that achieved rapid economic growth (including in agriculture) along with progress in health, education, and other dimensions of development. While the pattern of growth has not been even across regions, overall income distribution has improved.[26]

Several other African countries also made progress in poverty reduction during the 1990s at a rate exceeding the rate implied by the DAC poverty target. Ghana achieved an 18 per cent reduction in the incidence of poverty in seven years. Ethiopia managed a 25 per cent reduction in *rural* poverty in six years. Mauritania accomplished a 31 per cent reduction in poverty over the course of nine years. (The intervals for these results reflect when surveys were undertaken). In each case this progress was associated with economic growth rates that were at best moderate, not rapid. On the negative side, in countries that

[25] Global Economic Prospects and the Developing Countries – 2000, The World Bank, Chapter 1, "Prospects for Growth and Poverty Reduction in Developing Countries".
[26] See "Changes in Poverty in Uganda: 1992-97" by Simon Appleton, Center for the Study of African Economies, Oxford, May 1999 (Draft). Appleton reports that "General growth accounted for most of the fall in poverty, although there was also an improvement in distribution". Economic growth in Uganda has been rapid since the latter 1980s, and averaged about 4.5% annually during the 1992-97 period.

largely failed to achieve economic growth – Nigeria, Zambia, and Zimbabwe – poverty has increased substantially. Statistical analysis of these trends indicates that growth (in per capita consumption) explains about 75% of the observed changes in the incidence of poverty. (Most of the unexplained variation is for countries with negative growth; observations with positive growth lie very close to the regression line). The estimated elasticity is 1.0, indicating that a ten per cent increase in per capita consumption is associated with a 10 per cent decline in the incidence of poverty. This suggests that average annual growth rates around 1.8% are sufficient to meet the DAC target.[27]

All of this pertains to poverty defined (as in the DAC poverty target) in terms of income and consumption levels, particularly those required to achieve minimal levels of nutrition. Where education, health, and other social dimensions of poverty are concerned, progress has been more universal. Most developing countries have achieved significant improvements in health, education, and other social indicators over the past several decades.[28]

G. Development Strategies and Poverty Reduction Strategies – What Are the Essential Differences?

This paper makes the argument that to the extent USAID's strategies and strategic plan constitute a good development strategy, they represent a good poverty reduction strategy. The key elements of the argument are that poverty is concentrated in poor countries with limited resources, widespread poverty and weak institutions. In this sort of setting, poverty can only be significantly reduced through broad-based development progress. Further (and contrary to conventional wisdom twenty-five years ago), the development record makes clear that broad-based development progress is feasible, and has been effective in achieving significant reductions in poverty, on the order of those contemplated in the DAC target. Recent analysis of trends in income distribution and the links between economic growth and poverty reduction, as well as recent experience in specific countries, provides further support to this argument.

At the same time many argue that a good development strategy is still not the *best* poverty reduction strategy, and that a reorientation of strategy towards poverty reduction would achieve even greater declines in poverty. This argument has great intuitive appeal – how could a more direct focus on a particular challenge not yield better results?

To make a start on dealing with this issue one needs to identify the essential differences between a poverty reduction strategy and a strategy for broad-based development; and then make judgements about the differences. Neither task is easy. In particular, there is clearly a large degree of overlap between the two strategies, to the point where some would argue that the main difference is labeling and packaging. The following discussion briefly touches on some of the factors to be considered. It identifies some hypotheses and

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[27] See Can Africa Claim the 21st Century? The World Bank, 2000, pp. 91-92.

[28] See "What Do We Know About World Poverty" by James Fox; USAID Evaluation Special Study Report #74, May 1995; and "The Development Record and the Effectiveness of Foreign Aid", by Michael Crosswell, in Praxis – The Fletcher Journal of Development Studies, Volume XV, 1999.

lines of inquiry that merit more careful attention. The focus is on strategies that are applicable at the country level.[29]

A poverty reduction strategy at the country level would start with analysis that identifies constraints and opportunities for reducing poverty. A broad-based development strategy would start with analysis that identifies constraints and opportunities for achieving broad-based development. The differences in the strategies would then be revealed by differences in the opportunities and constraints identified by the initial analyses. In a middle-income country, these differences would likely be significant. The issue here is the quality and magnitude of the differences in a poor country with weak institutions, limited resources, and widespread poverty.

At a general level the most commonly cited difference is that a poverty reduction strategy pays more attention to distribution and to targeting assistance on the poor than does a development strategy. Several questions immediately arise. First, how much attention does a development strategy pay to distribution and targeting? Second, what *additional* attention is contemplated under a poverty reduction strategy? Third, with (at best) fixed and limited resources what do we do *less of* in a poverty reduction strategy compared with a development strategy, and at what cost to general development progress and poverty reduction?

On the first question it is clear that a good development strategy certainly pays a great deal of attention to distribution and impacts on the poor. For instance, a good development strategy places high priority on investments in basic social services such as health and education. In USAID's case there is major emphasis within the development assistance account on basic health, maternal health, basic education, and other social services vital to the well being of the poor. In favorable policy and institutional environments these are investments that yield high development returns, with positive implications for income distribution over the longer term.

Further, within USAID's strategic framework for economic growth, preponderant funding for Development Assistance goes to activities under the objectives of "increased access and opportunity for the poor" (especially support for microenterprise) and "agricultural development and food security". These would receive prominent emphasis in most poverty reduction strategies. Efforts in democracy and governance clearly aim to increase the participation of politically disadvantaged groups, reduce corruption, and promote the responsiveness of the government to the broad public interest and not just the interests of the powerful and influential. The general point is that a good development strategy places considerable emphasis on many of the distributional and/or targeted activities and interventions often cited as the distinguishing features of a poverty reduction strategy.

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[29] For instance USAID's Strategies for Sustainable Development and the associated Strategic Framework; the World Bank's Comprehensive Development Framework; the World Bank's <u>World Development Report 200/1001 – Attacking Poverty</u>; the Development Assistance Committee's Guidelines for Poverty Reduction; and PRSP's or Poverty Reduction Strategy Papers.

The second, more difficult question is what activities or emphases are included under the rubric of poverty reduction but *not* under the rubric of development? According to some accounts, the distinguishing features would include growth that is *labor intensive*; growth that is *concentrated in rural areas*, where the majority of the poor in developing countries live; and growth focused on *activities/products most vital to the living standards of the poor.*

Briefly considering these in turn, a focus on labor intensive growth is clearly an essential part of a good development strategy in poor countries where the abundant resource is unskilled labor. This by itself does not go very far at all in identifying the distinctive features of a poverty reduction strategy. The second issue -- the geographic pattern of growth -- is clearly one of balance and tradeoffs. The main issue is probably not urban versus rural, but rather tradeoffs between economic investments in high-potential rural areas and investments in low potential rural areas. The third issue -- focusing growth on activities and/or products most vital to the living standards of the poor (leaving aside social services, where there is a common emphasis) – may be related to the second, particularly where food and agriculture are concerned. More generally it suggests interventions and protection of a sort that could be damaging to prospects for both development and poverty reduction. On the latter two points, it is not at all clear that the balance in approaches achieved under a poverty reduction strategy would achieve greater poverty reduction than the balance achieved under a good development strategy.[30]

This leads to the third question -- what activities or emphases would be included under the rubric of broad-based development, but not poverty reduction? Here, both discussion and experience suggest that the activities that tend to get excluded under a poverty reduction strategy are those that may yield substantial general economic benefits, but where the links to the poor – though significant -- are relatively indirect and less readily apparent. This was certainly the case in the 1970s, when there were severe doubts about the impacts of growth on poverty.[31] It has also been the case in the 1990s. For instance a recent DAC study of USAID and poverty found that a strengthened emphasis on "poverty reduction" in USAID's Latin America Bureau meant a large shift away from measures aimed at strengthening markets and promoting overall growth, and towards activities that were directly targeted on the poor.[32] More recently, some cite the example of large infrastructure projects in poor countries as not poverty reducing, because the benefits to the poor are not readily visible, even though the returns and the potential contribution to growth may be high. Similarly, systemic policy and institutional reforms intended to yield large general benefits to the economy and promote economic growth (e.g. privatization, financial sector reform, trade liberalization, reforms in legal systems governing economic activity) come under suspicion if direct positive impacts on the poor

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[30] This appeared to be a central issue in debates over the draft World Development Report 2000/2001, including the resignation of the director of the team producing the Report.

[31] See "Evolution of the Basic Human Needs Concept", Development Coordination Committee Policy Paper, March 1979 (Revised July, 1980), Agency for International Development. This paper discusses the false dichotomy that emerged between basic needs (i.e. poverty) objectives and growth objectives.

[32] See "A Case Study of the United States Agency for International Development" (pp. 21-22) prepared as part of the DAC Informal Network on Poverty Reduction Scoping Study by Daniel J. Plunkett and Lynn Salinger, Associates for International Resources and Development, Cambridge, Mass. January 1999

are not readily visible.[33] This is all the more possible if some of the direct impacts (on public sector employment or employment in activities protected by trade barriers) are seen as negative. Recalling some of the discussion in the preceding paragraph, there would presumably be less investment in activities and geographic areas that yield high returns, but where the poor are not so visible compared with activities and areas with relatively lower returns but greater involvement by the poor. In some respects this becomes a debate between a more static view of poverty reduction – that aims to alleviate poverty under the assumption that the poor will stay where they are and continue doing what they are doing – and a more dynamic view of poverty reduction that envisions greater geographic mobility and economic transformation.

It is important to emphasize that this discussion is focused on *differences* between the two types of strategies, for purposes of understanding what is at stake in the choice between a development strategy and a poverty reduction strategy. There is a very large degree of overlap between most versions of a good development strategy, and most versions of a poverty reduction strategy. Where health, education, population, democracy and governance, environment, crisis and conflict, and other non-economic areas are concerned there are few if any distinctions to be drawn between a good development strategy and a poverty reduction strategy.

Pending further analysis, the main area where the two strategies seem to diverge appears to be in the area of economic growth, particularly the relative attention paid to income distribution (especially earned income) compared with attention to overall growth. Ultimately, the case that a good poverty reduction strategy is different from and more effective than a good development strategy appears to come down to two propositions. The first is that a good development strategy will not reduce poverty sufficiently fast, because the links between growth and poverty reduction are not strong. The second is that there is a set of interventions (beyond those contemplated under a broad-based development strategy) that will improve income distribution without undue sacrifice of overall growth and the poverty-reducing impacts of such growth. (If these latter impacts are presumed weak, then foregone growth is of correspondingly less concern).

On the first issue there is considerable empirical evidence (reviewed earlier in this paper) on the links between growth and poverty reduction, most of which is encouraging. Even at the *lower* bound of plausible linkages between growth and poverty reduction discussed in the World Development Report 2000, the DAC poverty target is readily achievable with modest growth over 20 to 25 years. Further, the state of the art on how to achieve growth and broad-based development more generally is fairly well advanced.[34]

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[33] For example, the proposed Strategic Framework for USAID's Center for Economic Growth and Agricultural Development depicts activities that strengthen markets as contributing to globalization, but not to poverty reduction. If there were only one objective – poverty reduction – there would apparently be no place in this framework for activities that strengthen markets.

[34] See for instance Perspectives on Aid and Development, Policy Essay #22, Overseas Development Council, 1997. This volume is introduced with the claim (p. vii) that "Far more than at any previous point in the last several decades, both donor and developing countries are in more general accord about the broad approaches required to foster sustained, poverty-reducing growth and development".

There is so far no comparable empirical record for interventions (beyond those contemplated in a broad-based development strategy, e.g. basic health and education) that have a demonstrated, substantial near-term impact on income distribution. There are isolated examples (e.g. land reform in East Asia) but they do not add up to proven, generally replicable strategies. Further, the empirical record on changes in income distribution is not encouraging. Despite steadfast efforts by many donors over many years, there is not much in the way of success revealed by the large and expanding data base on income distribution. Similarly, it is hard to find clear examples over the past three decades of developing countries that have deliberately set out to improve income distribution and succeeded. Finally, the political and institutional requisites for effective targeting aimed at directly improving income distribution for the poor are daunting, especially in the low-income developing countries that account for the bulk of global poverty. This raises further doubts about the feasibility and effectiveness of strategies with an emphasis on raising incomes of the poor by programs aimed at directly improving income distribution.

The preceding discussion needs to be viewed as exploratory rather than conclusive and authoritative. The essential differences between a poverty reduction strategy and a broad-based development strategy are (so far) vague and difficult to pin down. Until they are more precisely defined and evaluated, it is hard to conclude (or even argue) that one strategy is more feasible and effective than the other.

H. Global Poverty Reduction and U.S. National Interests

Viewing the problem of global poverty reduction as essentially a matter of achieving lasting development progress in poor countries, it is clear that poverty reduction serves the full range of broad U.S. national interests and not simply humanitarian interests. Development progress, including lasting poverty reduction in poor countries, supports broad U.S. national interests in stability and security; in a more prosperous, open international economy; and in a broader community of free-market democracies. Where global issues are concerned, countries that have achieved significant development progress are typically more able and more willing to protect the environment, and to cooperate fruitfully on other issues of global or transnational concern. In contrast, poor countries that remain mired in poverty will continue to pose problems in all of these areas that are of interest to the U.S. and other donors.

On the other hand, to the extent that the goal of poverty reduction is separate from the goal of overall country progress and transformation, the links between poverty reduction and U.S. national interests are correspondingly weaker. A focus on reducing the incidence of poverty in a middle-income country from 10% to 5% will not likely involve the sort of transformation at a national level that serves U.S. economic, political, and security interests, and U.S. interests in more specific global issues. It is only in poor countries -- where poverty reduction is necessarily a matter of general development progress – that poverty reduction is closely linked to broad U.S. interests. That is yet another argument for approaching poverty reduction through development strategies in low-income countries.

I. Concluding Remarks – Poverty Reduction and USAID

It is evident that the challenge of substantially reducing the severe poverty that afflicts some 1.2 billion of the world's population is mainly the challenge of achieving significant, broad-based development progress in low-income developing countries.

This perspective on what constitutes poverty reduction is reflected in USAID's Strategies for Sustainable Development and USAID's Strategic Plan. Poverty reduction is not mentioned as an explicit, separate Agency strategic goal or objective. However, virtually all of USAID's goals and objectives – in economic growth and agricultural development; democracy and governance; population, health, and human capacity development; environment; and humanitarian assistance -- make important contributions to poverty reduction *in poor countries*. USAID's mission could easily be rephrased as "Sustainable Development Including Poverty Reduction" without requiring significant changes in USAID's strategic framework of goals and objectives.

Indeed, the critical issues where poverty reduction is concerned arguably have more to do with the allocation of assistance *among* countries than with the types of activities considered poverty reducing. First, since global poverty is concentrated in low-income countries, foreign aid needs to be similarly focused if it is to have an impact. Second, recent analysis of the record of development cooperation suggests that foreign aid can make a significant contribution to development and poverty reduction in countries that are making reasonable self-help efforts in terms of policy reform, institutional strengthening, and basic public investments. In countries that are not making such efforts, the potential contribution of foreign aid to lasting progress is much more uncertain. The clear implication is that donors interested in reducing global poverty should focus aid mainly (not exclusively) on needy countries that are making reasonably adequate self-help efforts. Within such countries, foreign assistance should aim to support rapid, broad-based development progress.[35]

By and large USAID policies, programs, and practices conform well with these guidelines where *development assistance* is concerned. Statistical analysis of USAID allocations of development assistance (including child survival funds) indicates that need and commitment play a significant role in explaining the pattern of aid levels across countries.[36] Within countries, USAID's programs aim to maximize development results within the broad framework provided in USAID's strategic plan, subject to the constraints posed by earmarks, directives, and specific foreign policy concerns.

[35] See Assessing Aid; What Works, What Doesn't, and Why, World Bank Policy Research Report, 1998; and "Aid and Poverty Reduction: What We Know and What Else We Need to Know" by David Dollar, paper prepared for the Stiglitz Summer Research Workshop on Poverty, Washington D.C. July, 1999.

[36] See "How do Country Characteristics Affect USAID Resource Allocation?" by Don Sillers, USAID/PPC/PDC; September, 1999. The same cannot be said of Economic Support Funds (where allocations are mainly governed by concerns with peacekeeping and/or stability in key countries) and funds for Eastern Europe and the Soviet Union, where transition from Communism rather than poverty reduction per se is the essential concern.